

Pittsford Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2008

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Independent Auditors' Report

Board of Education
Pittsford Area Schools
Pittsford, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pittsford Area Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pittsford Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pittsford Area Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 8, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pittsford Area Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Willis & Jurasek, P.C

September 8, 2008

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Pittsford Area Schools, a K-12 school district located in Hillsdale County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Pittsford Area Schools Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally Accepted Accounting Principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-Wide Financial Statements

These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short- and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Summary of Net Assets

The following schedule summarizes the net assets at June 30, 2008 and 2007.

| | 2008 | 2007 |
|---|---------------------|---------------------|
| <u>Assets</u> | | |
| Current assets | \$ 2,032,803 | \$ 2,156,850 |
| Capital assets | 8,148,492 | 8,112,492 |
| Less: Accumulated depreciation | (6,294,520) | (6,182,903) |
| Capital assets net book value | 1,853,972 | 1,929,589 |
| Total assets | 3,886,775 | 4,086,439 |
| <u>Liabilities</u> | | |
| Current liabilities | 1,339,947 | 1,665,491 |
| Long-term liabilities | 1,349,081 | 1,352,099 |
| Total liabilities | 2,689,028 | 3,017,590 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 603,687 | 556,066 |
| Restricted for debt service | 58,806 | 37,155 |
| Restricted for capital outlay | 799 | 800 |
| Unrestricted | 534,454 | 474,828 |
| Total net assets | \$ 1,197,747 | \$ 1,068,849 |

Analysis of Financial Position

During the fiscal year ended June 30, 2008, the District's net assets increased by \$128,897. A significant factor affecting net assets during the year is discussed below.

Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2008, \$111,617 was recorded for depreciation expense.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Results of Operations

For the fiscal year ended June 30, 2008 and 2007, the results of operations, on a District-wide basis were:

| | 2008 | | 2007 | |
|-------------------------------------|------------------|----------------|------------------|----------------|
| | Amount | % of Total | Amount | % of Total |
| <u>General Revenues</u> | | | | |
| Property taxes | \$ 476,233 | 8.10% | \$ 480,143 | 7.93% |
| State of Michigan Aid, Unrestricted | 4,601,784 | 78.27% | 4,907,781 | 81.03% |
| Investment earnings | 15,034 | 0.26% | 20,859 | 0.34% |
| Other | 41,120 | 0.70% | 19,735 | 0.33% |
| Total general revenue | 5,134,171 | 87.32% | 5,428,518 | 89.63% |
| <u>Program Revenues</u> | | | | |
| Charges for services | 121,480 | 2.07% | 126,195 | 2.08% |
| Operating & capital grants | 623,748 | 10.61% | 501,722 | 8.28% |
| Total program revenues | 745,228 | 12.68% | 627,917 | 10.37% |
| Total Revenues | 5,879,399 | 100.00% | 6,056,435 | 100.00% |
| <u>Expenses</u> | | | | |
| Instruction | 3,723,705 | 64.75% | 3,790,743 | 62.62% |
| Support services | 1,500,646 | 26.10% | 1,659,792 | 27.42% |
| Food services | 220,335 | 3.83% | 222,575 | 3.68% |
| Athletics | 195,083 | 3.39% | 207,241 | 3.42% |
| Community Services | 1,252 | 0.02% | 150 | 0.00% |
| Other | 1,535 | 0.03% | 19,004 | 0.31% |
| Interest on long-term debt | 41,267 | 0.72% | 81,888 | 1.35% |
| Unallocated depreciation | 66,679 | 1.16% | 71,961 | 1.19% |
| Total Expenses | 5,750,502 | 100.00% | 6,053,354 | 100.00% |

Analysis of Significant Revenues and Expenditures

Significant revenues and expenditures are discussed in the segments below.

1. Property Taxes

The District levied 17.9082 mills of property taxes for operations on non-homestead properties, according to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

1. Property Taxes (Continued)

For the 2007-2008 fiscal year, the District collected \$319,855 in non-homestead property taxes for general purposes. This represented an increase of \$15,595 from the prior year.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

| Fiscal Year | Non-Homestead Tax Levy | Percent Change |
|-------------|---------------------------|-------------------|
| 2007-2008 | \$ 319,855 | 6.03% |
| 2006-2007 | 301,676 | -0.56% |
| 2005-2006 | 303,383 | 10.09% |
| 2004-2005 | 275,579 | 4.76% |
| 2003-2004 | 263,047 | 0.56% |

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count.

The following table shows a five-year history of the School District's total state aid revenues, including categoricals and other amounts, and the per pupil state aid foundation allowance.

| Fiscal Year | Foundation Allowance per Pupil | Percent Change |
|-------------|-----------------------------------|-------------------|
| 2007-2008 | \$ 7,204 | 1.68% |
| 2006-2007 | 7,085 | 3.05% |
| 2005-2006 | 6,875 | 2.61% |
| 2004-2005 | 6,700 | 1.12% |
| 2003-2004 | 6,626 | 3.43% |

3. Student Enrollment

The following schedule lists the actual state aid membership (student FTE) for the past five years. The increase in enrollment for 2005-2006 and 2006-2007 is due in part to a cooperative agreement with Sacred Heart Catholic School in Hudson, Michigan. The decrease in enrollment for 2007-2008 is due in part to the expiration of the cooperative agreement with Sacred Heart Catholic School at the end of the 2006-2007 school year.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

3. Student Enrollment (Continued)

| Fiscal Year | February | September | Blended Count | Increase (Decrease) |
|-------------|----------|-----------|---------------|------------------------|
| 2007-2008 | 728.06 | 684.00 | 695.02 | (47.24) |
| 2006-2007 | 726.01 | 747.68 | 742.26 | 28.15 |
| 2005-2006 | 679.00 | 725.80 | 714.11 | 24.36 |
| 2004-2005 | 701.00 | 686.00 | 689.75 | (14.95) |
| 2003-2004 | 690.20 | 685.80 | 704.70 | 0.06 |

4. Operating Grants

In addition to State Aid from the foundation allowance and categorical sources, the District receives operating grants from both federal and state sources. For the fiscal year ending June 30, 2008, the major federal grants were Title I, Title II, and National School Lunch. Federal Grant revenue was \$286,305. This represents an increase of \$2,411 from the prior fiscal year.

5. Special Education and Vocational Education Allocation

In addition to our regular K-12 programming, there are specialized schools that serve Pittsford students. Forty-three students were involved in vocational educational programs at Hillsdale Intermediate School District's Home Building Site, Health Services Program, Manufacturing Technology Center, and Hillsdale Beauty College. The District received \$19,157 from the State and \$16,069 from the Hillsdale County ISD from a county vocational millage to help fund the District's vocational classes. Special education opportunities are offered by Hillsdale County Intermediate School District and are designed to assist students with severe handicaps.

6. Interest Earnings

The District received interest on its general fund investments in the amount of \$14,459 for the fiscal year ended June 30, 2008. Interest rates decreased from the prior year; therefore, General Fund interest revenues decreased from the prior fiscal year by \$5,629.

7. Comparative Expenditures

Comparisons of the District's expenditures are reported below.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

7. Comparative Expenditures (Continued)

| | 2007-2008 | 2006-2007 | Increase (Decrease) |
|---------------------|--------------|--------------|------------------------|
| Expenditures | | | |
| Instruction | \$ 3,713,138 | \$ 3,809,430 | \$ (96,292) |
| Supporting services | 1,486,017 | 1,644,838 | (158,821) |
| Athletic activities | 218,510 | 194,519 | 23,991 |
| Food service | 219,961 | 222,201 | (2,240) |
| Community services | 1,252 | 150 | 1,102 |
| Other | 1,535 | 18,404 | (16,869) |
| Debt service | 173,596 | 172,301 | 1,295 |
| Capital projects | - | 600 | (600) |
| Total Expenditures | \$ 5,814,009 | \$ 6,062,443 | \$ (248,434) |

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2007-2008 fiscal year, the District amended the general fund budget twice, adopting its final amendment May 19, 2008. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---------------------|-----------------|--------------|--------------|-------------------------------|
| Revenues | \$ 5,421,491 | \$ 5,387,052 | \$ 5,452,596 | \$ 65,544 |
| Expenditures | | | | |
| Instruction | 3,640,784 | 3,736,089 | 3,713,138 | 22,951 |
| Supporting services | 1,592,428 | 1,551,507 | 1,486,017 | 65,490 |
| Transfers | 160,000 | 165,000 | 160,184 | 4,816 |
| Other | 67,675 | 14,000 | 1,535 | 12,465 |

Local revenues increased due to an increase in property taxes collected; an increase in revenue from administrative outreach programs; revenue received from transporting head start students; and an increase in the insurance rebate we received from SET-SEG from the prior year. Although the District received an increase of 1.68% (\$119) to the per pupil foundation allowance, State revenues decreased due to a decrease in student enrollment. Federal revenues remained near the same level, due to carryover funding in Title I and Title II.

Pittsford Area Schools

Management's Discussion and Analysis

Year Ended June 30, 2008

General Fund Budgetary Highlights (Continued)

The original budget reflected a 1½% wage increase per the negotiated contract with the Pittsford Education Association (PEA). The final budget includes an additional ½% increase (tied to the increase in the foundation allowance) per the negotiated contract with the PEA. Expense for substitute teachers increased due to many extended leaves experienced by the District this school year. The District's cost for energy, heating and diesel fuel also increased.

Capital Asset and Debt Administration Capital

Assets

By the end of the 2007-2008 fiscal year, the District had invested \$8.15 million in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. Depreciation expense for the year amounted to approximately \$0.11 million, bringing accumulated depreciation to \$6.3 million as of June 30, 2008.

Long-Term Debt

At June 30, 2008 the District had \$1.35 million in long-term debt outstanding. This represents a reduction of \$142,831 over the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the 2008-2009 fiscal year. The early indication is that the foundation allowance may increase slightly from as little as \$42 to as much as \$102 per pupil. This moderate increase coupled with a countywide decline of enrolled students and increases in wages, insurance, and fuel and energy costs will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, while the State has managed to contain the growth in the rate District's fund the retirement system over the past few years, the increase in the number of retirees projected to occur over the next few years may result in higher annual increases. The recent restructuring of the retirement system to reduce retirement cost will not immediately affect school districts, as only those employees hired after July 1, 2008, will be affected by the new rules.
- The District offered an early retirement incentive at the end of the 2007-2008 school year with deferred incentive payouts scheduled during 2008-2009. Several teachers took advantage of this opportunity, and although the District will not experience a significant reduction in payroll cost for the 2008-2009 school year, it will significantly reduce payroll costs for the 2009-2010 school year.

Pittsford Area Schools
Management's Discussion and Analysis
Year Ended June 30, 2008

Factors Bearing on the District's Future (Continued)

- A two-year contract was negotiated with the Pittsford Education Association, the union that represents the teaching staff, at the end of the 2008-2009. The teachers have agreed to a zero percent increase for 2008-2009 and a ½% increase (with an additional ½% tied to enrollment) for 2009-2010. This is the first time in several years that the PEA has negotiated a multi-year contract.
- The District was successful in passing a five-year, one mill sinking fund levy at the regular May school board election. Sinking fund monies will be utilized to make improvements to the District's heating, windows, and restroom facilities, hopefully reducing the District's energy and heating costs in future years.
- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by District. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it. Also, of monumental importance is the recent passing of the Michigan Merit Curriculum, dictating teaching material and which courses students must pass to graduate.
- The District, working in collaboration with neighboring districts within the county, has attempted to reduce District cost whenever possible by the sharing of services and cooperative purchases. This collaboration will continue as long as it is beneficial to the District. The District will be utilizing Hillsdale Community School's transportation department for maintenance and repair of the District's fleet for 2008-2010.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent, Pittsford Area Schools, 9304 Hamilton Street, Pittsford, MI 49271.

Pittsford Area Schools
Statement of Net Assets
June 30, 2008

Governmental
Activities

Assets:

| | |
|---|------------------|
| Cash and investments | \$ 1,101,226 |
| Receivables | |
| Due from other governmental units | 908,081 |
| Inventories | 6,043 |
| Prepaid expenses | 17,452 |
| Capital assets less accumulated depreciation of \$6,294,520 | <u>1,853,972</u> |
| Total assets | <u>3,886,775</u> |

Liabilities:

| | |
|--|------------------|
| Accounts payable | 6,079 |
| State aid anticipation loan | 690,000 |
| Accrued payroll | 430,409 |
| Accrued interest | 38,440 |
| Other liabilities | 175,019 |
| Long-term liabilities: | |
| Bonds payable, due within one year | 169,353 |
| Other obligations, due within one year | 9,813 |
| Bonds payable, due in more than one year | 1,015,292 |
| Other obligations, due in more than one year | <u>154,623</u> |
| Total liabilities | <u>2,689,028</u> |

Net Assets:

| | |
|--|---------------------|
| Investment in capital assets - net of related debt | 603,687 |
| Restricted for debt service | 58,806 |
| Restricted for construction | 799 |
| Unrestricted | <u>534,454</u> |
| Total net assets | <u>\$ 1,197,747</u> |

Pittsford Area Schools
Statement of Activities
Year Ended June 30, 2008

| Functions/Programs | Program Revenues | | | | Governmental |
|---|------------------|----------------------|--------------------------------|------------------------------|---|
| | Expenses | Charges for Services | Operating Grants/Contributions | Capital Grants/Contributions | Activities |
| Primary Government | | | | | Net (Expenses) Revenues and Changes in Net Assets |
| Governmental activities: | | | | | |
| Instruction | \$ 3,723,705 | \$ 17,519 | \$ 294,118 | \$ - | (3,412,068) |
| Support services | 1,500,646 | - | 163,741 | - | (1,336,905) |
| Food service activities | 220,335 | 81,523 | 129,888 | - | (8,924) |
| Athletic activities | 195,083 | 22,438 | - | 36,000 | (136,645) |
| Community services | 1,252 | - | - | - | (1,252) |
| Other | 1,535 | - | - | - | (1,535) |
| Interest on long-term debt | 41,267 | - | - | - | (41,267) |
| Depreciation (unallocated) | 66,679 | - | - | - | (66,679) |
| Total governmental activities | \$ 6,750,502 | \$ 121,480 | \$ 587,748 | \$ 36,000 | (5,005,274) |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 319,855 |
| Property taxes, levied for debt services | | | | | 156,378 |
| State aid not restricted to specific purposes | | | | | 4,601,784 |
| Interest and investment earnings | | | | | 15,034 |
| Other | | | | | 41,120 |
| Total general revenues | | | | | 5,134,171 |
| Change in Net Assets | | | | | 128,897 |
| Net Assets - Beginning of Year | | | | | 1,068,850 |
| Net Assets - End of Year | | | | | \$ 1,197,747 |

Pittsford Area Schools
Balance Sheet
Governmental Funds
June 30, 2008

| | Other Nonmajor Governmental | | |
|---|-----------------------------------|-----------------------|-------------------------|
| | General | Funds | Total |
| <u>Assets</u> | | | |
| Cash and short-term investments | \$ 308,459 | \$ 107,120 | \$ 415,578 |
| Short-term investments | 685,648 | - | 685,648 |
| Receivables: | | | |
| Due from other governmental units | 908,081 | - | 908,081 |
| Due from other funds | 6,922 | 3,828 | 10,750 |
| Inventories | - | 6,043 | 6,043 |
| Prepaid expenditures | 17,452 | - | 17,452 |
| Total assets | <u>\$ 1,926,562</u> | <u>\$ 116,991</u> | <u>\$ 2,043,553</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 6,079 | \$ - | \$ 6,079 |
| State aid anticipation loan | 690,000 | - | 690,000 |
| Due to other funds | 3,828 | 6,922 | 10,750 |
| Salaries payable | 416,435 | 13,974 | 430,409 |
| Accrued interest | 21,865 | - | 21,865 |
| Deferred revenue | 22,816 | 6,448 | 29,264 |
| Other liabilities | 141,864 | 3,891 | 145,755 |
| Total liabilities | <u>1,302,887</u> | <u>31,235</u> | <u>1,334,122</u> |
| Fund Balances: | | | |
| Reserved for debt service | - | 58,806 | 58,806 |
| Reserved for construction | - | 799 | 799 |
| Reserved for inventory | - | 6,043 | 6,043 |
| Reserved for prepaid expenditures | 17,452 | - | 17,452 |
| Reserved for technology | 30,304 | - | 30,304 |
| Designated for special purposes | 5,100 | - | 5,100 |
| Unreserved; undesignated | 570,820 | 20,107 | 590,926 |
| Total fund balances | <u>623,675</u> | <u>85,755</u> | <u>709,431</u> |
| Total liabilities and fund balances | <u>\$ 1,926,562</u> | <u>\$ 116,991</u> | <u>\$ 2,043,553</u> |

Pittsford Area Schools
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Assets
Governmental Funds
June 30, 2008

| | |
|---|---------------------|
| Total Fund Balances - Governmental Funds | \$ 709,431 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | |
| The cost of the capital assets is | \$ 8,148,492 |
| Accumulated depreciation is | <u>(6,294,520)</u> |
| | 1,853,972 |
| Long-term liabilities not due and payable in the current period and not reported in the funds | |
| Bonds payable | (1,184,645) |
| Notes payable | (49,065) |
| Compensated absences | (115,371) |
| Accrued interest payable on long-term debt is not included as a liability in governmental activities | |
| | <u>(16,575)</u> |
| Total Net Assets - Governmental Activities | \$ 1,197,747 |

See Notes to Financial Statements.

Pittsford Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

| | <u>General</u> | <u>Other Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------|--|-------------------|
| Revenues: | | | |
| Local sources | \$ 375,884 | \$ 296,915 | \$ 672,798 |
| State sources | 4,894,411 | 10,771 | 4,905,182 |
| Federal sources | 165,232 | 119,118 | 284,350 |
| Interdistrict and other | <u>17,069</u> | <u>-</u> | <u>17,069</u> |
| Total revenues | <u>5,452,596</u> | <u>426,803</u> | <u>5,879,399</u> |
| Expenditures: | | | |
| Instruction | 3,713,138 | - | 3,713,138 |
| Support services | 1,486,017 | - | 1,486,017 |
| Athletic activities | - | 218,510 | 218,510 |
| Food service activities | - | 219,961 | 219,961 |
| Community services | 1,252 | - | 1,252 |
| Other | 1,535 | - | 1,535 |
| Debt service: | | | |
| Principal payments | - | 130,000 | 130,000 |
| Interest and fiscal charges | <u>-</u> | <u>43,596</u> | <u>43,596</u> |
| Total expenditures | <u>5,201,941</u> | <u>612,068</u> | <u>5,814,009</u> |
| Revenues Over (Under) Expenditures | <u>250,655</u> | <u>(185,265)</u> | <u>65,391</u> |
| Other Financing Sources (Uses): | | | |
| Operating transfers in | - | 160,184 | 160,184 |
| Operating transfers out | <u>(160,184)</u> | <u>-</u> | <u>(160,184)</u> |
| Total other financing sources (uses) | <u>(160,184)</u> | <u>160,184</u> | <u>-</u> |
| Net Changes in Fund Balances | 90,471 | (25,081) | 65,391 |
| Fund Balances - Beginning of Year | <u>533,204</u> | <u>110,836</u> | <u>644,040</u> |
| Fund Balances - End of Year | <u>\$ 623,675</u> | <u>\$ 85,755</u> | <u>\$ 709,431</u> |

See Notes to Financial Statements.

Pittsford Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

| | | |
|---|-----------|---------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 65,391 |
|---|-----------|---------------|

Amounts reported for governmental activities in the Statement
of Activities are different because

Governmental funds report capital outlays as expenditures, in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation

| | | |
|----------------------|---------------|----------|
| Depreciation expense | \$ (111,617) | |
| Capital outlay | <u>36,000</u> | |
| | | (75,617) |

| | | |
|---|--|-------|
| Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, it is not reported in governmental funds until paid | | 2,329 |
|---|--|-------|

Bond and note proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets

| | | |
|----------------------|----------------|---------|
| Principal repayments | <u>139,813</u> | 139,813 |
|----------------------|----------------|---------|

| | | |
|--|--|----------------|
| Decreases in compensated absences are reported in the Statement of Activities when payment is made; such decreases are not reported in governmental funds | | <u>(3,019)</u> |
|--|--|----------------|

| | | |
|--|-----------|-----------------------|
| Change in Net Assets of Governmental Activities | \$ | <u>128,897</u> |
|--|-----------|-----------------------|

Pittsford Area Schools
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

Agency Fund -
Student
Activities

Assets

Cash and investments
Total assets

\$ 59,039
\$ 59,039

Liabilities

Due to student groups
Total liabilities

\$ 59,039
\$ 59,039

Pittsford Area Schools

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Pittsford Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements -- The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Pittsford Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds maintained by the District are the Athletics Fund and Food Service Fund.

Debt Funds – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof on a particular bond issue. The District maintains the 2005 Refunding Debt Fund and the Durant Debt Fund.

Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains the Sinking Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

Pittsford Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fiduciary Funds (Continued) - The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

| | |
|--|---------|
| General Fund – Non-homestead | 17.9082 |
| Debt Funds – Homestead and Non-homestead | 1.7088 |

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Pittsford Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables (Continued) - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$2,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------|-------------|
| Buildings and improvements | 20-50 years |
| Buses and other vehicles | 5-10 years |
| Furniture and equipment | 5-10 years |

Compensated Absences - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pittsford Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the General Fund are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditures functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

Pittsford Area Schools
Notes to Financial Statements

Note 3 – Deposits and Investments

At year-end, the District's deposits and investments were reported in the basic financial statements in the following categories.

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> | <u>Total Primary Government</u> |
|----------------------|------------------------------------|----------------------------|-------------------------------------|
| Cash and investments | \$ <u>1,101,226</u> | \$ <u>59,039</u> | \$ <u>1,160,265</u> |

The breakdown between deposits and investments for the School District is as follows:

| | |
|---|---------------------|
| Deposits (checking and savings accounts, certificates of deposit) | \$ 855,004 |
| Investments in cash management trusts | <u>305,261</u> |
| Total | \$ <u>1,160,265</u> |

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the MILAF investment fund had an average maturity of less than 1 year.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investments policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the Cash Management Funds were rated AAAM by Standard & Poor's.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end \$808,631, of the District's bank balance of \$908,631 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at year end consist of the following.

| | |
|---|-------------------|
| Other governmental units (primarily Michigan Department of Education) | \$ 908,081 |
| Accounts receivable | <u>-</u> |
| | \$ <u>908,081</u> |

Pittsford Area Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the School District's governmental activities was as follows

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals and Adjustments</u> | <u>Year-End Balance</u> |
|--------------------------------------|------------------------------|--------------------|--------------------------------------|-----------------------------|
| Capital assets being depreciated | | | | |
| Building and improvements | \$ 5,424,931 | \$ 36,000 | \$ - | \$ 5,460,931 |
| Buses and other vehicles | 575,563 | - | - | 575,563 |
| Furniture and equipment | <u>2,111,998</u> | <u>-</u> | <u>-</u> | <u>2,111,998</u> |
| Subtotal | <u>8,112,492</u> | <u>36,000</u> | <u>-</u> | <u>8,148,492</u> |
| Accumulated depreciation: | | | | |
| Building and improvements | 3,744,150 | 62,866 | - | 3,807,016 |
| Buses and other vehicles | 542,150 | 6,682 | - | 548,833 |
| Furniture and equipment | <u>1,896,603</u> | <u>42,069</u> | <u>-</u> | <u>1,938,671</u> |
| Subtotal | <u>6,182,903</u> | <u>111,617</u> | <u>-</u> | <u>6,294,520</u> |
| Net capital assets being depreciated | <u>1,929,589</u> | <u>(75,617)</u> | <u>-</u> | <u>1,853,972</u> |
| Net capital assets | <u>\$ 1,929,589</u> | <u>\$ (75,617)</u> | <u>\$ -</u> | <u>\$ 1,853,972</u> |

Depreciation expense was charged to the activities of the School District as follows

| | |
|--------------------------|-------------------|
| Governmental activities: | |
| Instruction | \$ 8,246 |
| Support services | 23,746 |
| Food services | 374 |
| Athletics | 12,573 |
| Unallocated | <u>66,679</u> |
| | <u>\$ 111,617</u> |

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

| | <u>Due To:</u> | |
|-------------------|-------------------------|---------------------------|
| | <u>General Fund</u> | <u>Athletics Fund</u> |
| Due From: | | |
| Food Service Fund | \$ 6,743 | \$ - |
| 2005 Debt Fund | 179 | |
| General Fund | <u>-</u> | <u>3,828</u> |
| | <u>\$ 6,922</u> | <u>\$ 3,828</u> |

During the current fiscal year, the General Fund transferred \$160,184 to the Athletics Fund to subsidize the activities of the Athletics Fund

Pittsford Area Schools
Notes to Financial Statements

Note 7 – Note Payable

During the year, the District issued a State Aid anticipation note dated August, 2007 maturing August, 2008 in the amount of \$690,000 with an interest rate of 3.68%. The note was renewed August 2008 with a balance of \$600,000.

| <u>Balance</u> <u>June 30, 2007</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>June 30, 2008</u> |
|--|------------------|-----------------|--|
| \$ 800,000 | \$ 690,000 | \$ 800,000 | \$ 690,000 |

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Amounts Due</u> <u>Within One</u> <u>Year</u> |
|-------------------------------|------------------------------------|------------------|-------------------|---------------------------------|--|
| Governmental activities: | | | | | |
| Bonds | \$ 1,314,645 | \$ - | \$ 130,000 | \$ 1,184,645 | \$ 169,353 |
| Compensated absences | 118,389 | - | 3,018 | 115,371 | - |
| Note payable | 58,878 | - | 9,813 | 49,065 | 9,813 |
| Total governmental activities | <u>\$ 1,491,912</u> | <u>\$ -</u> | <u>\$ 142,831</u> | <u>\$ 1,349,081</u> | <u>\$ 179,166</u> |

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

| | <u>Governmental Activities</u> | | |
|-------------|--------------------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2009 | \$ 179,166 | \$ 54,679 | \$ 233,845 |
| 2010 | 155,702 | 38,166 | 193,868 |
| 2011 | 155,983 | 33,095 | 189,078 |
| 2012 | 156,276 | 27,812 | 184,088 |
| 2013 | 156,583 | 22,236 | 178,819 |
| 2014 – 2017 | <u>430,000</u> | <u>33,815</u> | <u>463,815</u> |
| Total | <u>\$ 1,233,710</u> | <u>\$ 209,801</u> | <u>\$ 1,443,512</u> |

Long-term debt consists of:

| | |
|---|---------------------|
| \$1,505,000 – 2005 refunding bonds due in annual installments of \$130,000 - \$145,000 through May, 2016; interest at 3.000% to 4.000% | \$ 1,125,000 |
| \$98,130 – Note payable for consortium interest due in annual installments of \$9,813 through April 2013; interest at 3% | 49,065 |
| \$59,320 – Durant Non-Plaintiff serial bonds due in annual installments of \$3,007 to \$13,856 through May 15, 2013, interest at 4.70%. | <u>59,645</u> |
| Total long-term debt | <u>\$ 1,233,710</u> |

Pittsford Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other District financial resources. No payment was made in 2008. A payment is anticipated for 2009.

2005 Refunding Bonds -- On March 2, 2005, the District issued \$1,505,000 in general obligation bonds to advance refund \$1,505,000 of outstanding 1995 refunding bonds and 1996 refunding bonds. The net proceeds \$1,509,578 (including premium of \$1,492 and after payment of \$55,768 in underwriting fees and other issuance costs) plus an additional \$50,000 from the 1995 and 1996 Debt Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$1,505,000 of the 1995 and 1996 bonds are considered to be defeased.

The District advance refunded the bonds to reduce its total debt service payments over the next fifteen years by approximately \$132,418 and to obtain an economic gain (difference between the present values of the debt service payments on the old and the new debt) of approximately, \$261,000.

Note 9 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Pittsford Area Schools
Notes to Financial Statements

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, in any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007 and 16.72 percent for the period October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The School District's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately \$581,000, \$595,000, and \$536,000, respectively.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Post-Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 - Sinking Fund

The Building and Site Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 13 – Prior Period Adjustment

A prior period adjustment was made to the General Fund to record the effect of accrued interest on the State Aid Anticipation Note not reported in the prior year. This adjustment decreased fund balance by \$25,643, the amount of accrued interest at June 30, 2007.

Required Supplemental Information

Pittsford Area Schools
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> |
|---|-------------------------|-------------------|-------------------|
| | <u>Original</u> | <u>Final</u> | |
| Revenues: | | | |
| Local sources | \$ 328,723 | \$ 382,180 | \$ 375,884 |
| State sources | 4,942,268 | 4,874,410 | 4,894,411 |
| Federal sources | 150,500 | 167,987 | 165,232 |
| Interdistrict and other | - | 16,069 | 17,069 |
| Total revenues | <u>5,421,491</u> | <u>5,440,646</u> | <u>5,452,596</u> |
| Expenditures: | | | |
| Instruction: | | | |
| Basic programs | 3,106,206 | 3,060,692 | 3,046,970 |
| Added needs | 534,578 | 675,397 | 666,168 |
| Support services: | | | |
| Pupil services | 91,858 | 111,708 | 108,991 |
| Instructional staff services | 51,320 | 41,351 | 39,276 |
| General administrative services | 125,563 | 164,085 | 158,701 |
| School administrative services | 270,401 | 160,465 | 156,374 |
| Business services | 172,549 | 185,190 | 180,818 |
| Operations and maintenance | 576,518 | 564,944 | 529,634 |
| Pupil transportation | 292,383 | 307,327 | 296,661 |
| Central support services | 11,836 | 16,437 | 15,561 |
| Community services | - | 4,000 | 1,252 |
| Other transactions | - | 10,000 | 1,535 |
| Total expenditures | <u>5,233,212</u> | <u>5,301,596</u> | <u>5,201,941</u> |
| Revenues Over (Under) Expenditures | <u>188,279</u> | <u>139,050</u> | <u>250,655</u> |
| Other Financing Sources (Uses): | | | |
| Transfers out | <u>(227,675)</u> | <u>(165,000)</u> | <u>(160,184)</u> |
| Net Changes in Fund Balances | <u>(39,396)</u> | <u>(25,950)</u> | <u>90,471</u> |
| Fund Balances - Beginning of Year | <u>533,204</u> | <u>533,204</u> | <u>533,204</u> |
| Fund Balances - End of Year | <u>\$ 493,808</u> | <u>\$ 507,254</u> | <u>\$ 623,675</u> |

Other Supplemental Information

Pittsford Area Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

| | <u>Special Revenue</u> | | <u>Debt Service</u> | | <u>Capital Projects</u> | |
|--------------|------------------------|------------------|---------------------|---------------|-------------------------|--------------|
| | <u>Food Service</u> | <u>Athletics</u> | <u>2005</u> | <u>Durant</u> | <u>Sinking</u> | <u>Total</u> |
| \$ 44,079 \$ | 3,255 \$ | 58,985 \$ | - \$ | 799 \$ | 107,120 | |
| - | 3,828 | - | - | - | 3,828 | |
| 6,043 | - | - | - | - | 6,043 | |
| \$ 50,122 \$ | 7,083 \$ | 58,985 \$ | - \$ | 799 \$ | 116,991 | |

Assets

Cash and investments
Due from other funds
Inventory
Total assets

Liabilities and Fund Balances

Liabilities:

| | | | | | | |
|--------------------|--------|-------|-----|---|---|--------|
| Salaries payable | 10,896 | 3,078 | - | - | - | 13,974 |
| Other liabilities | 3,141 | 750 | - | - | - | 3,891 |
| Due to other funds | 6,743 | - | 179 | - | - | 6,922 |
| Deferred revenue | 6,448 | - | - | - | - | 6,448 |
| Total liabilities | 27,228 | 3,828 | 179 | - | - | 31,235 |

Fund Balances:

| | | | | | | |
|---------------------------|--------|-------|--------|---|-----|--------|
| Reserved for debt service | - | - | 58,806 | - | - | 58,806 |
| Reserved for construction | - | - | - | - | 799 | 799 |
| Reserved for inventory | 6,043 | - | - | - | - | 6,043 |
| Unreserved:undesignated | 16,851 | 3,255 | - | - | - | 20,107 |
| Total fund balances | 22,894 | 3,255 | 58,806 | - | 799 | 85,755 |

Total liabilities and fund balances

| | | | | | | |
|--------------|----------|-----------|------|--------|---------|--|
| \$ 50,122 \$ | 7,083 \$ | 58,985 \$ | - \$ | 799 \$ | 116,991 | |
|--------------|----------|-----------|------|--------|---------|--|

Pittsford Area Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

| | <u>Special Revenue</u> | | <u>Debt Service</u> | | <u>Capital Projects</u> | |
|---|------------------------|------------------|---------------------|---------------|-------------------------|------------------|
| | <u>Food Service</u> | <u>Athletics</u> | <u>2005</u> | <u>Durant</u> | <u>Sinking</u> | <u>Total</u> |
| Revenues: | | | | | | |
| Local sources | \$ 81,698 | \$ 58,478 | \$ 156,739 | \$ - | \$ - | \$ 296,915 |
| State sources | 10,771 | - | - | - | - | 10,771 |
| Federal sources | 119,118 | - | - | - | - | 119,118 |
| Total revenues | <u>211,586</u> | <u>58,478</u> | <u>156,739</u> | <u>-</u> | <u>-</u> | <u>426,803</u> |
| Expenditures: | | | | | | |
| Athletic activities | - | 218,510 | - | - | - | 218,510 |
| Food service activities | 219,961 | - | - | - | - | 219,961 |
| Debt service: | | | | | | |
| Principal | - | - | 130,000 | - | - | 130,000 |
| Interest and fees | - | - | 43,596 | - | - | 43,596 |
| Total expenditures | <u>219,961</u> | <u>218,510</u> | <u>173,596</u> | <u>-</u> | <u>-</u> | <u>612,068</u> |
| Revenues Over (Under) Expenditures | <u>(8,376)</u> | <u>(160,032)</u> | <u>(16,857)</u> | <u>-</u> | <u>(185,265)</u> | |
| Other Financing Sources (Uses) | | | | | | |
| Operating transfers in | - | 160,184 | - | - | - | 160,184 |
| Total other financing sources (uses) | <u>-</u> | <u>160,184</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>160,184</u> |
| Net Changes in Fund Balances | <u>(8,376)</u> | <u>152</u> | <u>(16,857)</u> | <u>-</u> | <u>-</u> | <u>(25,081)</u> |
| Fund Balances - Beginning of Year | <u>31,270</u> | <u>3,103</u> | <u>75,664</u> | <u>-</u> | <u>799</u> | <u>110,836</u> |
| Fund Balances - End of Year | <u>\$ 22,894</u> | <u>\$ 3,255</u> | <u>\$ 58,806</u> | <u>\$ -</u> | <u>\$ 799</u> | <u>\$ 85,755</u> |

Pittsford Area Schools
Schedule of Bonded Indebtedness
June 30, 2008

| | <u>Date of Issue</u> | <u>Amount of Issue</u> | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Fiscal Year Interest Requirements</u> | <u>Amount of Annual Maturity</u> |
|----------------------|--------------------------|----------------------------|--------------------------|-----------------------------|--|--|
| 2005 Refunding Bonds | March 2, 2005 | \$ 1,505,000 | 3.000% | 5/1/2009 | \$ 39,723 | \$ 135,000 |
| | | | 3.150% | 5/1/2010 | 35,673 | 140,000 |
| | | | 3.300% | 5/1/2011 | 31,263 | 140,000 |
| | | | 3.500% | 5/1/2012 | 26,643 | 140,000 |
| | | | 3.650% | 5/1/2013 | 21,743 | 140,000 |
| | | | 3.750% | 5/1/2014 | 16,633 | 140,000 |
| | | | 3.850% | 5/1/2015 | 11,383 | 145,000 |
| | | | 4.000% | 5/1/2016 | 5,800 | 145,000 |
| | | | | | | <u>\$ 1,125,000</u> |

| | <u>Date of Issue</u> | <u>Amount of Issue</u> | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Fiscal Year Interest Requirements</u> | <u>Amount of Annual Maturity</u> |
|--------------|--------------------------|----------------------------|--------------------------|-----------------------------|--|--|
| Durant Bonds | September 14, 1998 | \$ 68,167 | 4.70% | 5/15/2009 | \$ 13,308 | \$ 34,353 |
| | | | 4.70% | 5/15/2010 | 1,204 | 5,889 |
| | | | 4.70% | 5/15/2011 | 924 | 6,170 |
| | | | 4.70% | 5/15/2012 | 630 | 6,463 |
| | | | 4.70% | 5/15/2013 | 322 | 6,770 |
| | | | | | | <u>59,645</u> |



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Education
Pittsford Area Schools
Pittsford, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pittsford Area Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pittsford Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

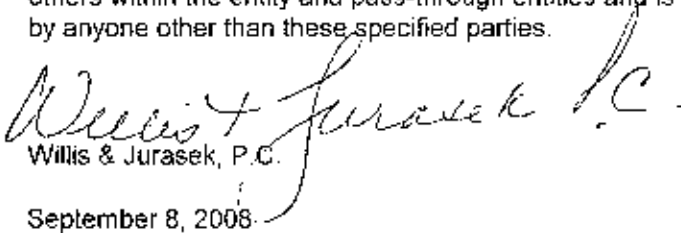
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

We noted certain matters that we reported to management of the District in a separate letter dated September 8, 2008.

This report is intended solely for the information and use of the Board of Education, management, others within the entity and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Willis & Jurasek, P.C.
September 8, 2008



September 8, 2008

Board of Education
Pittsford Area Schools
Pittsford, Michigan

We have audited the financial statements of Pittsford Area Schools for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Suite 200
Jackson, MI 49203-3600

Phone Number: (517) 788-8660

Fax Number: (517) 788-9872

E-Mail: willis@willispc.com

Web site: www.willispc.com

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- An asset appraisal was done for the prior year ended June 30, 2004, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.
- Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$115,000.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process. Management has approved all adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.